



**Auditor of State
David A. Vaudt**

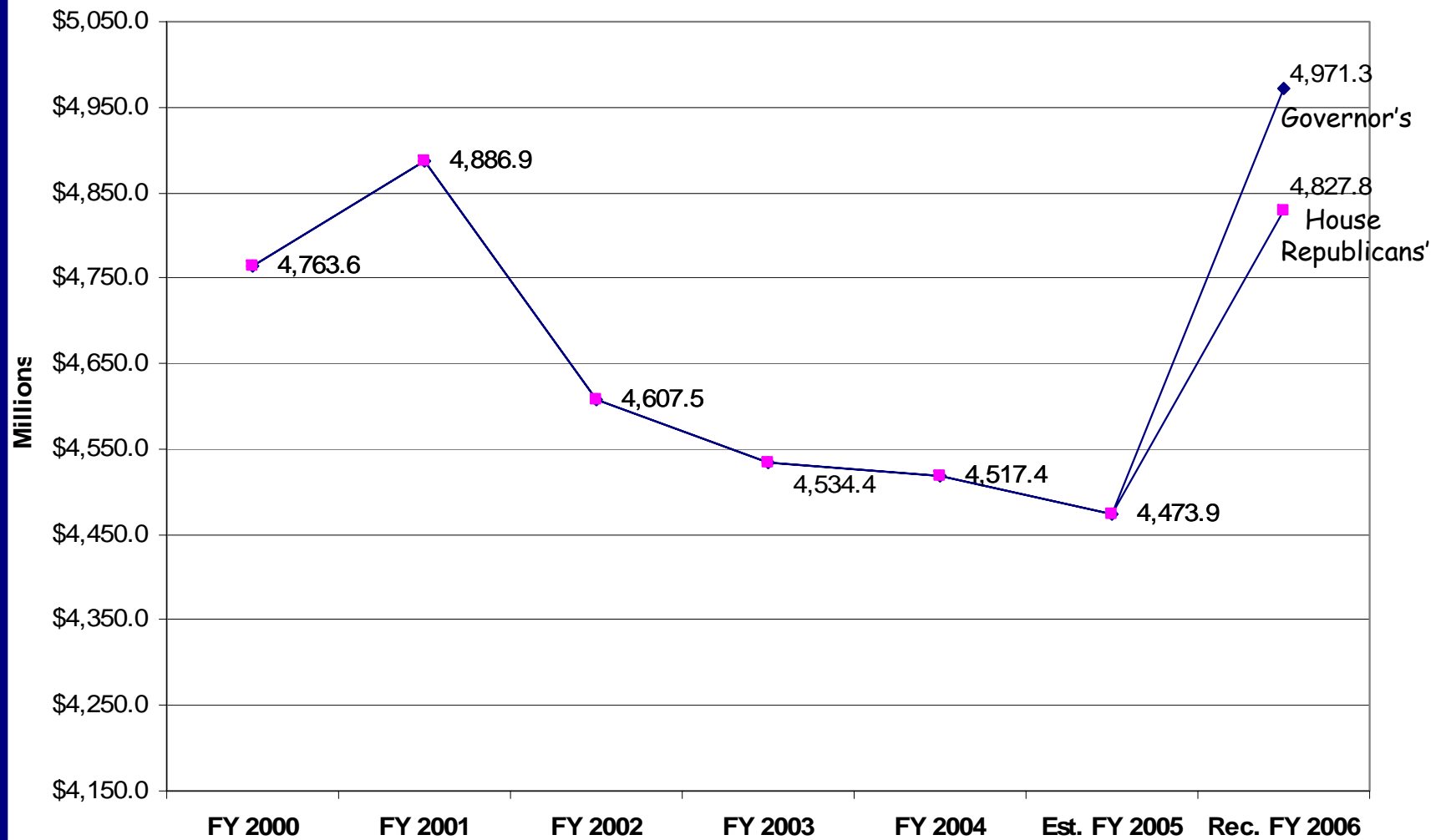
Budgeting - Iowa's Future

May 2005

Presentation Objectives

- Lack of Clarity in Budgets
- “Balanced” Budgets
- Spending Limitation of 99%
- Lack of Longer-Range Focus
- Auditor Vaudt's Recommendations
- Questions and Answers Session

State of Iowa General Fund Expenditures Lack of Clarity



State of Iowa
General Fund
Lack of Clarity
FY2006 True Total Expenditures
(\$ in Millions)

	<u>House Republicans'</u>	<u>Governor's</u>	
Expenditures per budget	<u>\$4,827.8</u>	<u>4,971.3</u>	
Expenditures shifted	380.7	328.1	
LSA (1) estimated additional costs:			
Salaries and benefits	44.0	77.0	
Medicaid supplement	23.0	23.0	
Repayment to SLTF (2)	<u>(55.6)</u>	<u>0.0</u>	
	<u>392.1</u>	<u>428.1</u>	
	<u>8.1%</u>	<u>8.6%</u>	
"True Total Expenditures"	<u><u>\$5,219.9</u></u>	<u><u>5,399.4</u></u>	

(1) Legislative Services Agency

(2) Senior Living Trust Fund

State of Iowa
General Fund
Lack of Clarity
FY2006 Expenditure Shifts
(\$ in Millions)

	<u>House Republicans'</u>	<u>Governor's</u>
Expenditure shifts:		
Cash Reserve Fund -	\$147.2	94.1(1)
For Property Tax Credits, Medicaid, Early Care & Learning		
Senior Living Trust Fund -	136.0	136.0
For Medicaid		
Tobacco Related Funds -	67.1	67.1
For Medicaid, Substance Abuse, Debt Service		
Hospital Trust Fund -	22.9	22.9
For Medicaid		
Environment First Fund -	7.5	7.5
For Soil Conservation, Park Operations		
Iowa Values Bridge Financing Fund -	<u>0.0</u>	<u>.5</u>
For Aviation Improvement		
	<u>\$380.7</u>	<u>328.1</u>

(1) FY2005 appropriation for FY2006 - same impact as appropriation from Cash Reserve Fund

State of Iowa General Fund Lack of Clarity (\$ in Millions)

	<u>Expenditures</u>	<u>Expenditures Shifted</u>	<u>"True Total Expenditures"</u>
FY 2000	\$ 4,763.6	-	\$ 4,763.6
FY 2001	\$ 4,886.9	\$ 86.1	\$ 4,973.0
FY 2002	\$ 4,607.5	\$ 265.8	\$ 4,873.3
FY 2003	\$ 4,534.4	\$ 316.5	\$ 4,850.9
FY 2004	\$ 4,517.4	\$ 258.8	\$ 4,776.2
Est. FY 2005	<u>\$ 4,538.9</u> (1)	<u>\$ 430.0</u>	<u>\$ 4,968.9</u>
Rec. FY 2006:			
House Republicans'	<u>\$ 4,839.2</u> (2)	<u>\$ 380.7</u>	<u>\$ 5,219.9</u>
Governor's	<u>\$ 5,071.3</u> (3)	<u>\$ 328.1</u>	<u>\$ 5,399.4</u>

- (1) Includes \$65 million needed for Medicaid supplement.
- (2) Includes \$44 million needed for salaries and benefits and \$23 million needed for Medicaid supplement, less \$55.6 million for Senior Living Trust Fund repayment.
- (3) Includes \$77 million needed for salaries and benefits and \$23 million needed for Medicaid supplement.

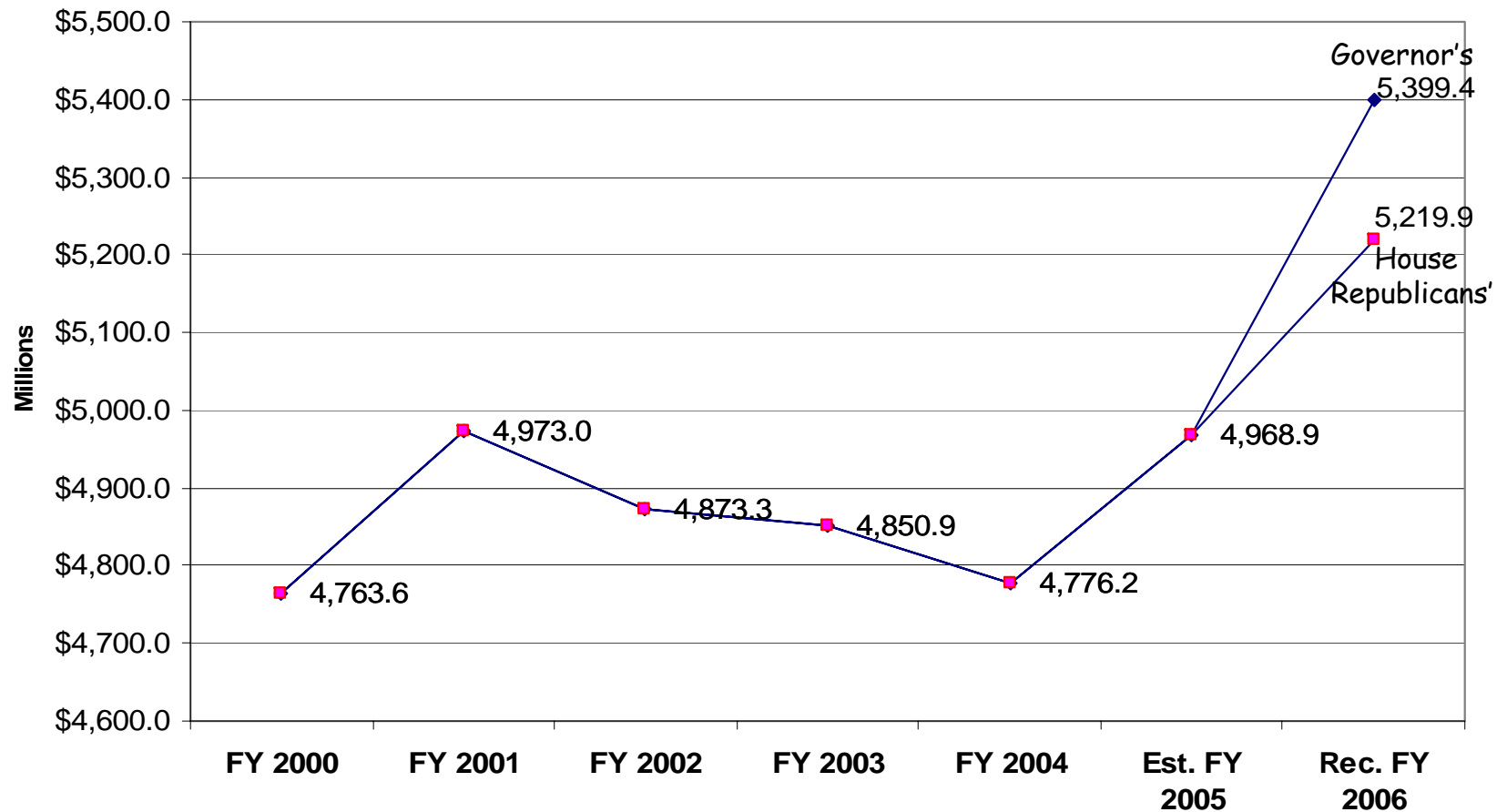
State of Iowa
General Fund
Lack of Clarity
(\$ in Millions)

	<u>Expenditures</u>	<u>"True Total Expenditures"</u>
House Republicans':		
FY 2006 v. FY 2000	<u>\$ 64.2</u>	<u>\$ 456.3</u>
Percentage	<u>1.3%</u>	<u>9.6%</u>
Governor's:		
FY 2006 v. FY 2000	<u>\$ 207.7</u>	<u>\$ 635.8</u>
Percentage	<u>4.4%</u>	<u>13.3%</u>

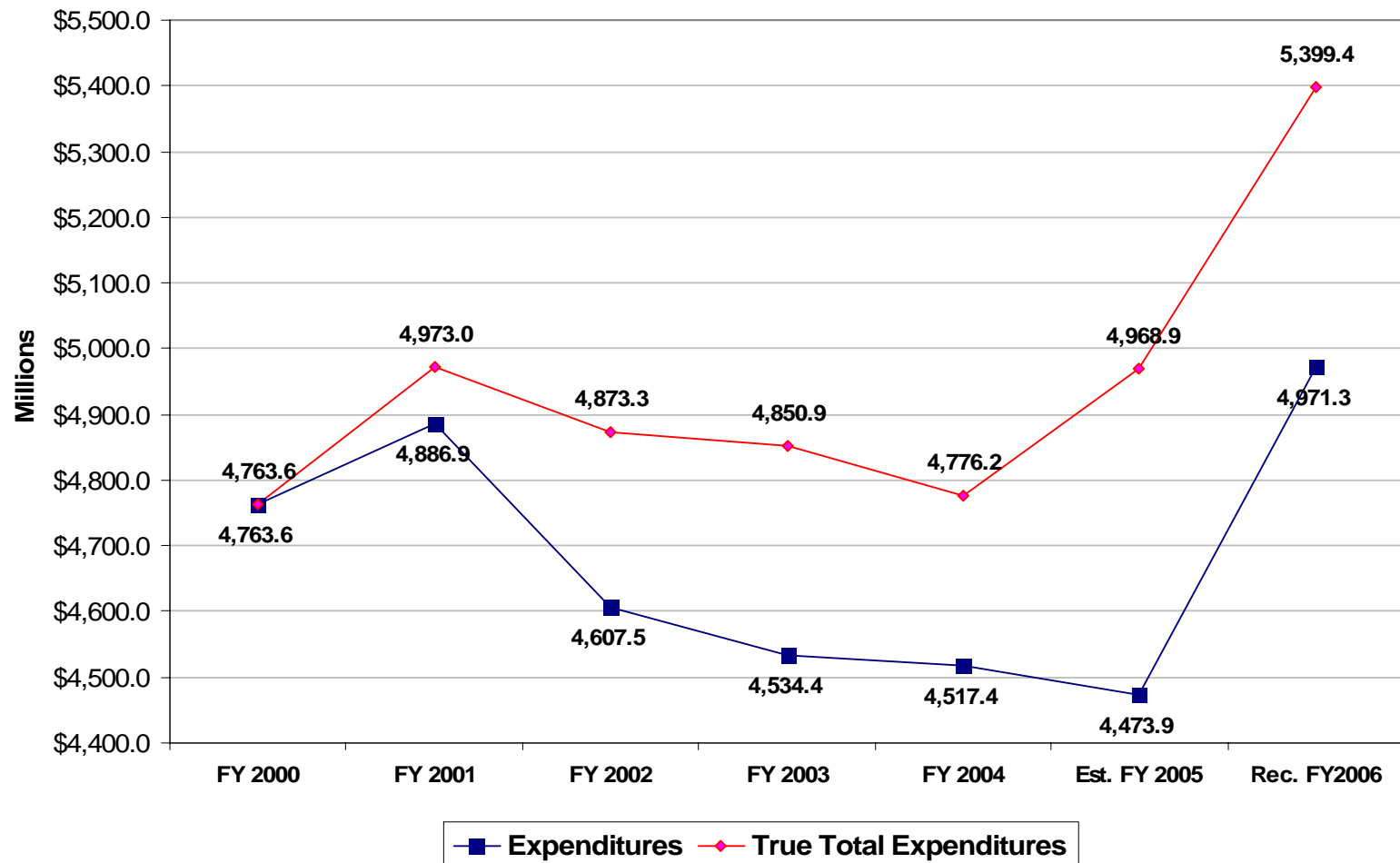
State of Iowa
General Fund
Spending Growth from FY2005 to FY2006 Comparison
(\$ in Millions)

		<u>Percentage Increase</u>
FY2005 "True Total Expenditures"	<u>\$4,968.9</u>	
Governor's FY2006	<u>\$5,399.4</u>	<u>8.7%</u>
House Republicans' FY2006	<u>\$5,219.9</u>	<u>5.1%</u>

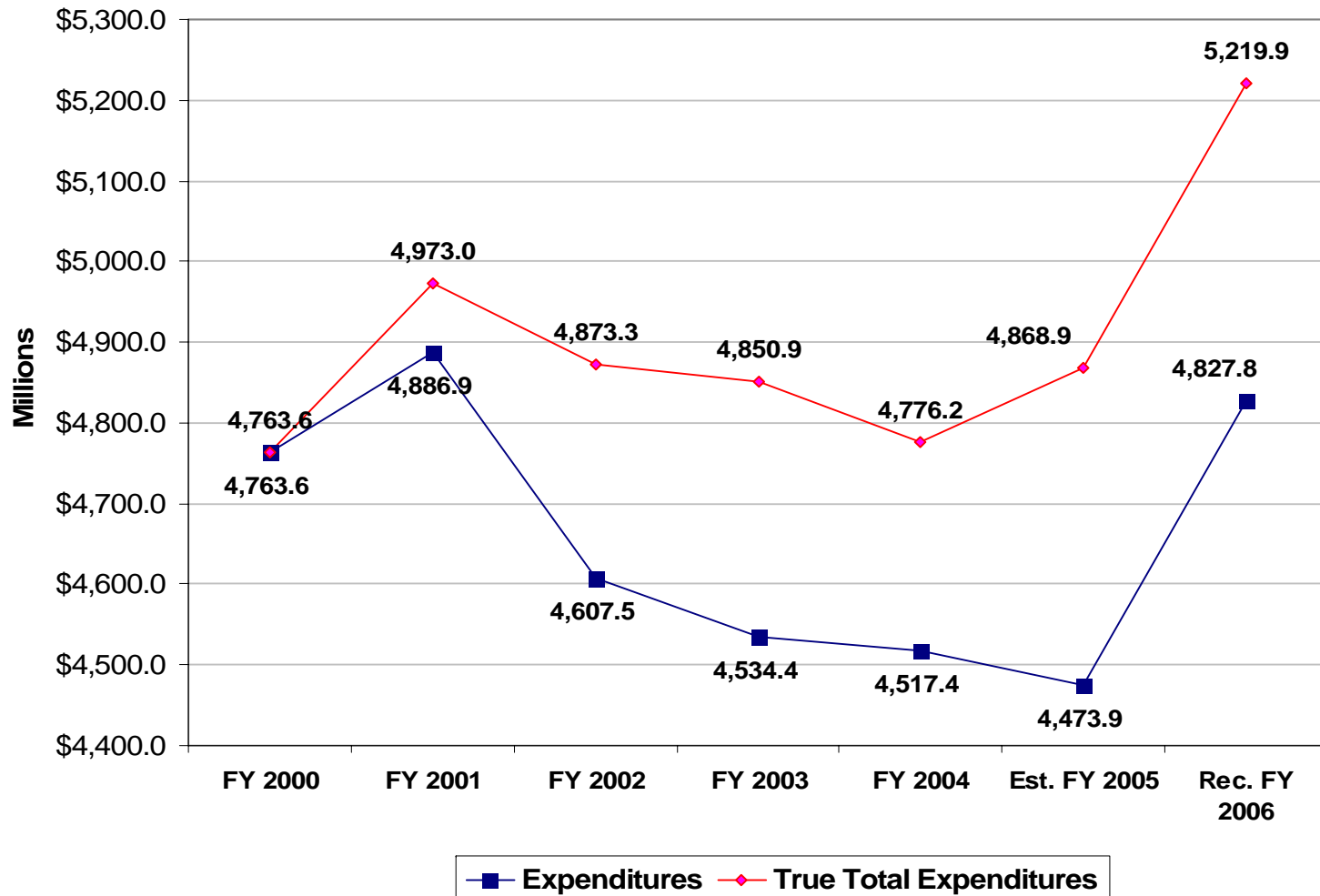
State of Iowa General Fund "True Total Expenditures" Lack of Clarity



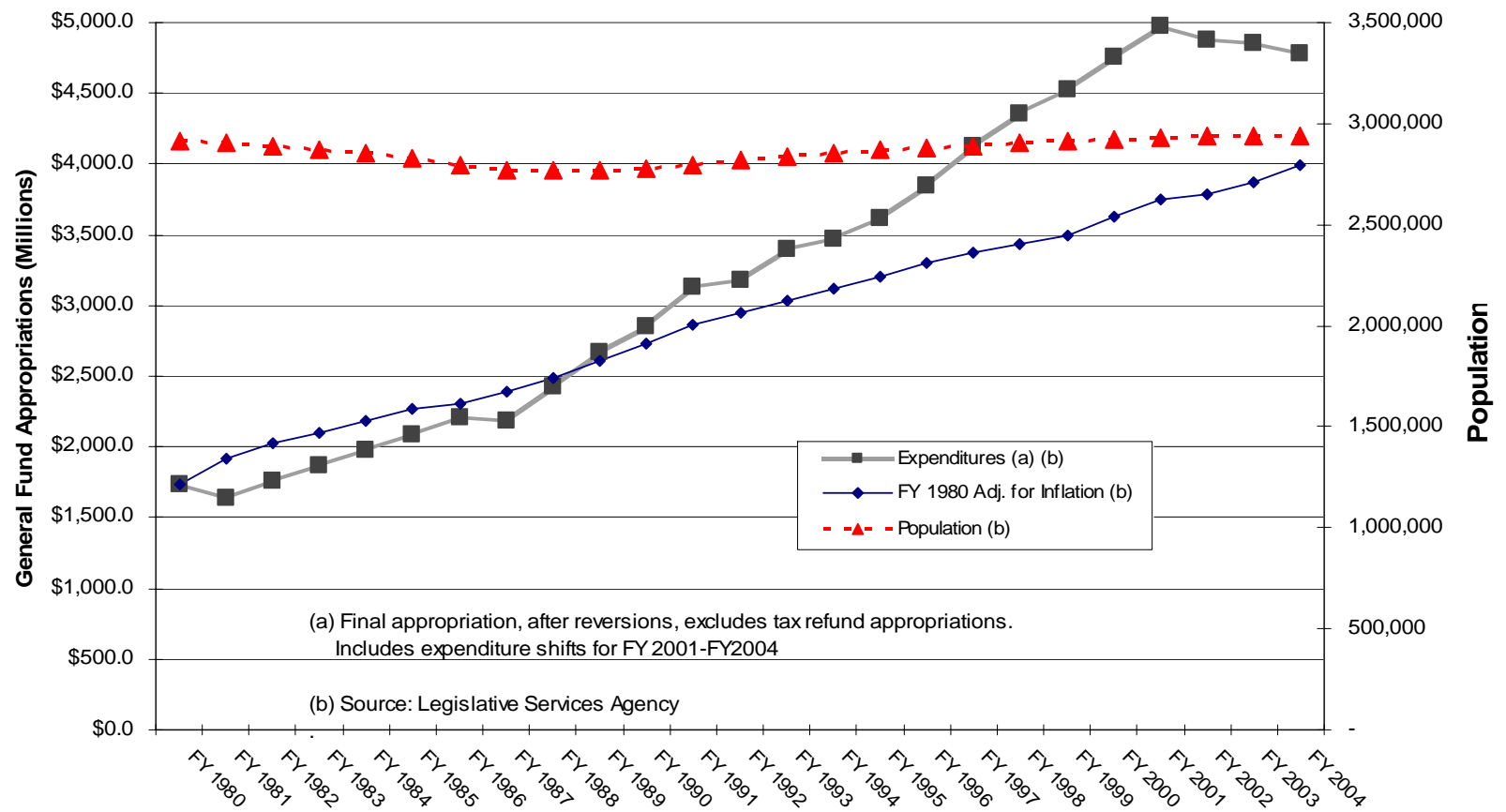
State of Iowa General Fund Appropriations Governor's Lack of Clarity



State of Iowa General Fund Appropriations House Republicans' Lack of Clarity



State of Iowa General Fund Expenditures, Inflation, and Population



State of Iowa General Fund Expenditures

FY1980 to FY 2004

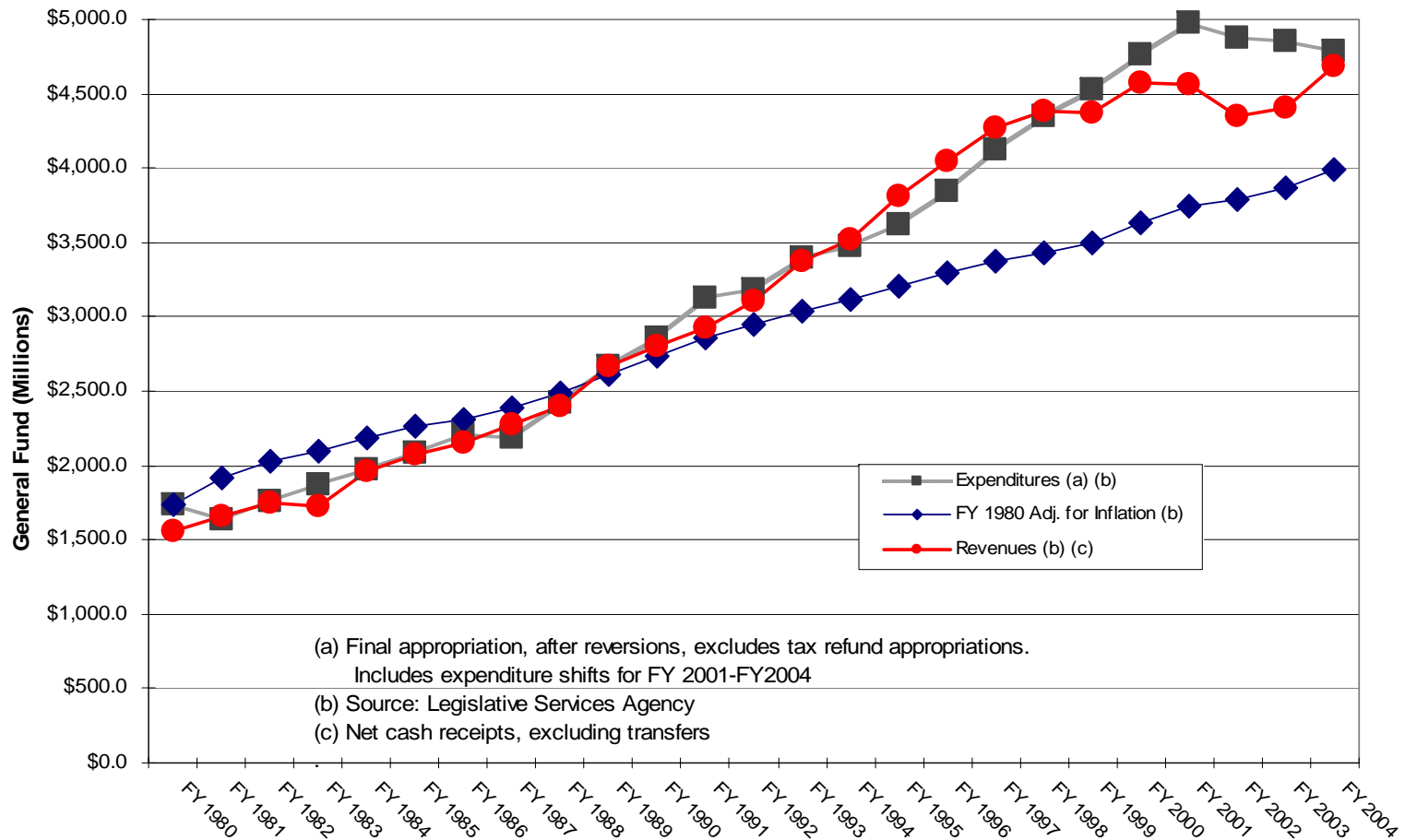
Inflation 130.2%

"True Total Expenditures" 175.8%

The expenditure growth of last few years
is not sustainable.

State of Iowa

General Fund Expenditures, Inflation, and Revenues

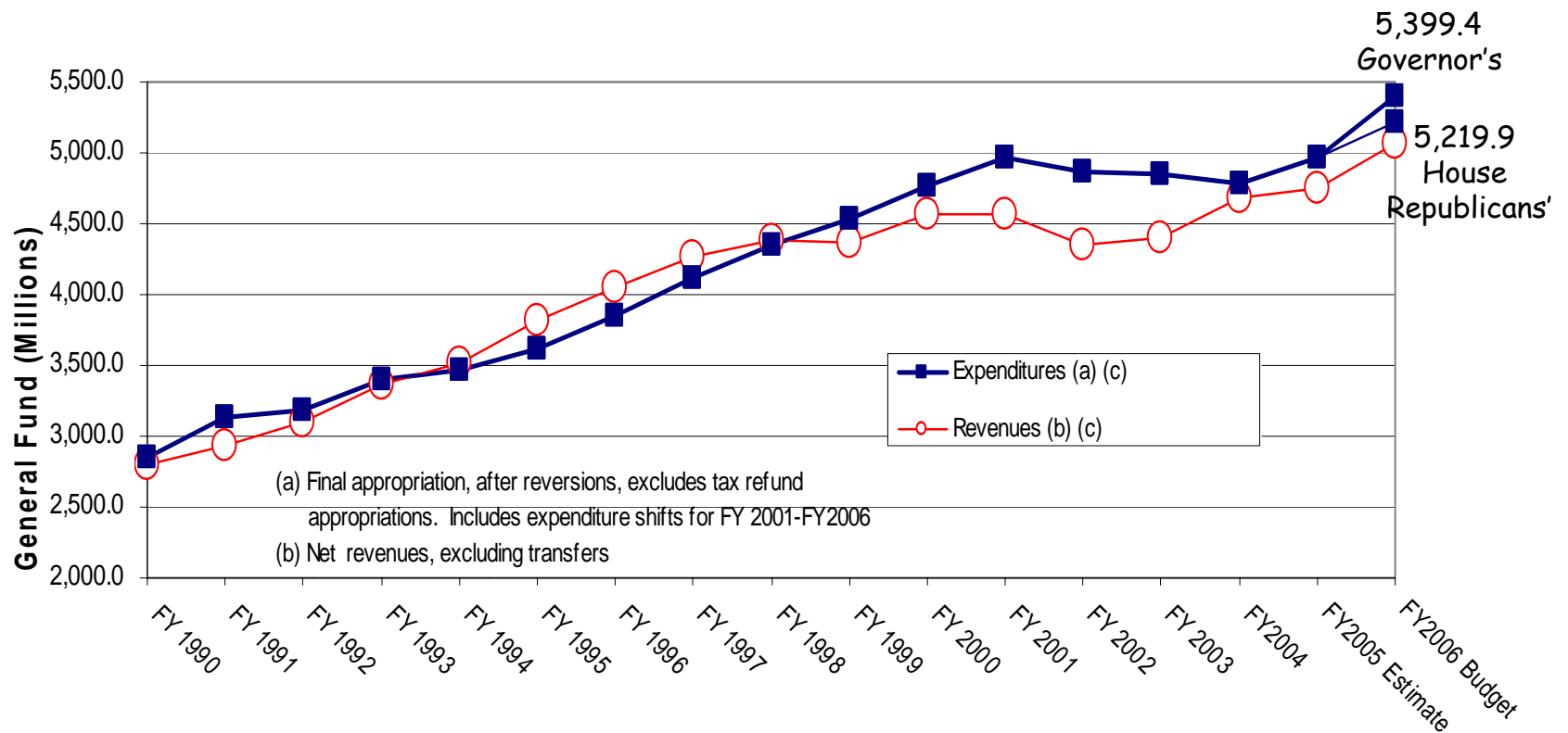


State of Iowa
General Fund
FY2006 Spending Gap - Expenditures Exceed Revenues
(\$ in Millions)

	<u>House Republicans'</u>	<u>Governor's</u>
REC (1) revenue estimate	\$4,903.0	\$4,903.0
Cigarette & tobacco tax increase	0.0	129.9
Combined corporate reporting	0.0	25.0
Other	<u>7.6</u>	<u>4.7</u>
Total revenues available	4,910.6	5,062.6
"True Total Expenditures"	<u>5,219.9</u>	<u>5,399.4</u>
Gap - spending in excess of Revenues	<u>\$ (309.3)</u>	<u>\$ (336.8)</u>

(1) Revenue Estimating Conference

State of Iowa General Fund Spending Exceeds Revenues



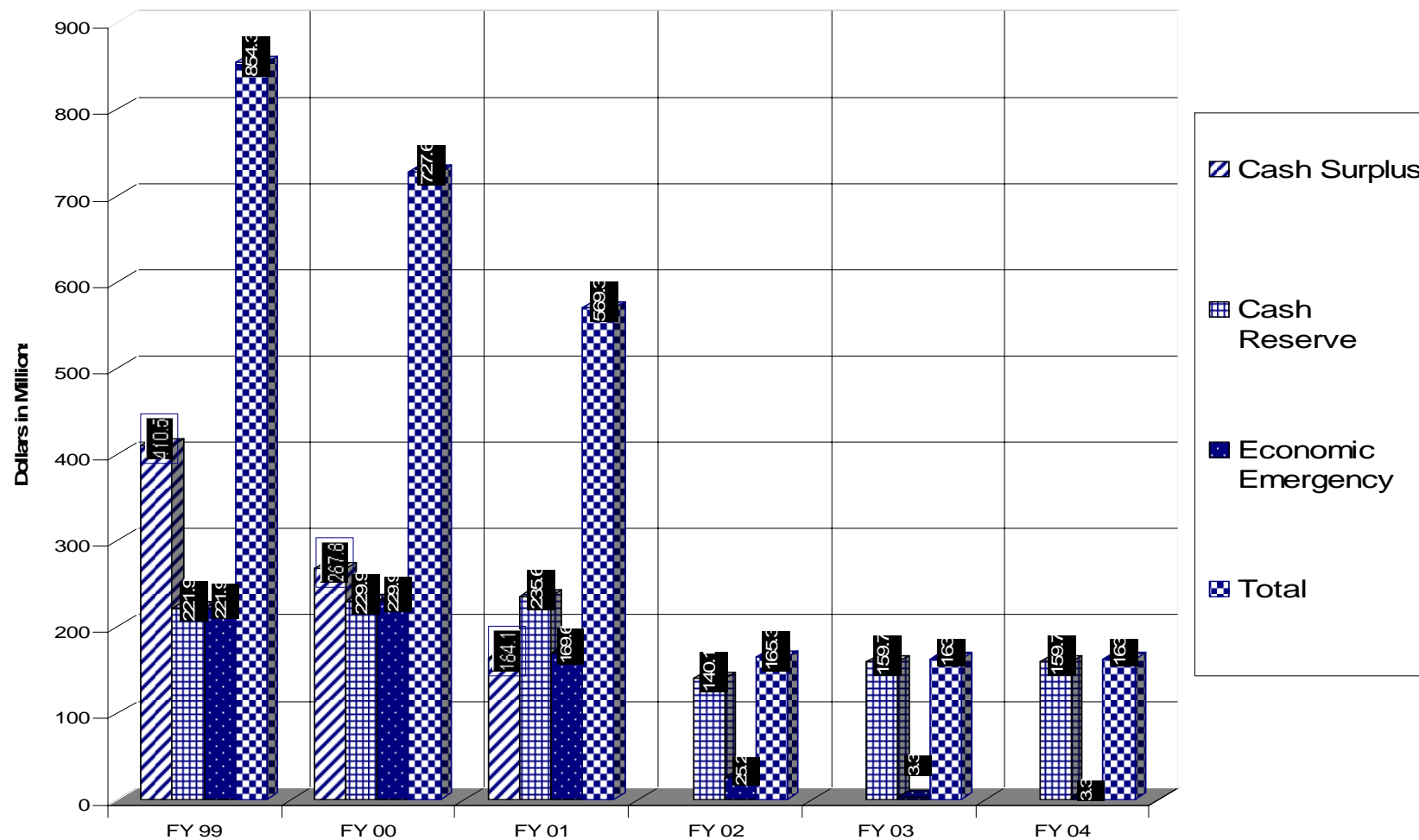
State of Iowa Breakdown of Iowa's Population

	<u>1980</u>	<u>2001</u>
Age 0-19	32%	28%
Age 20-64	55%	57%
Age 65+	13%	15%
Total	2,914,019	2,931,758

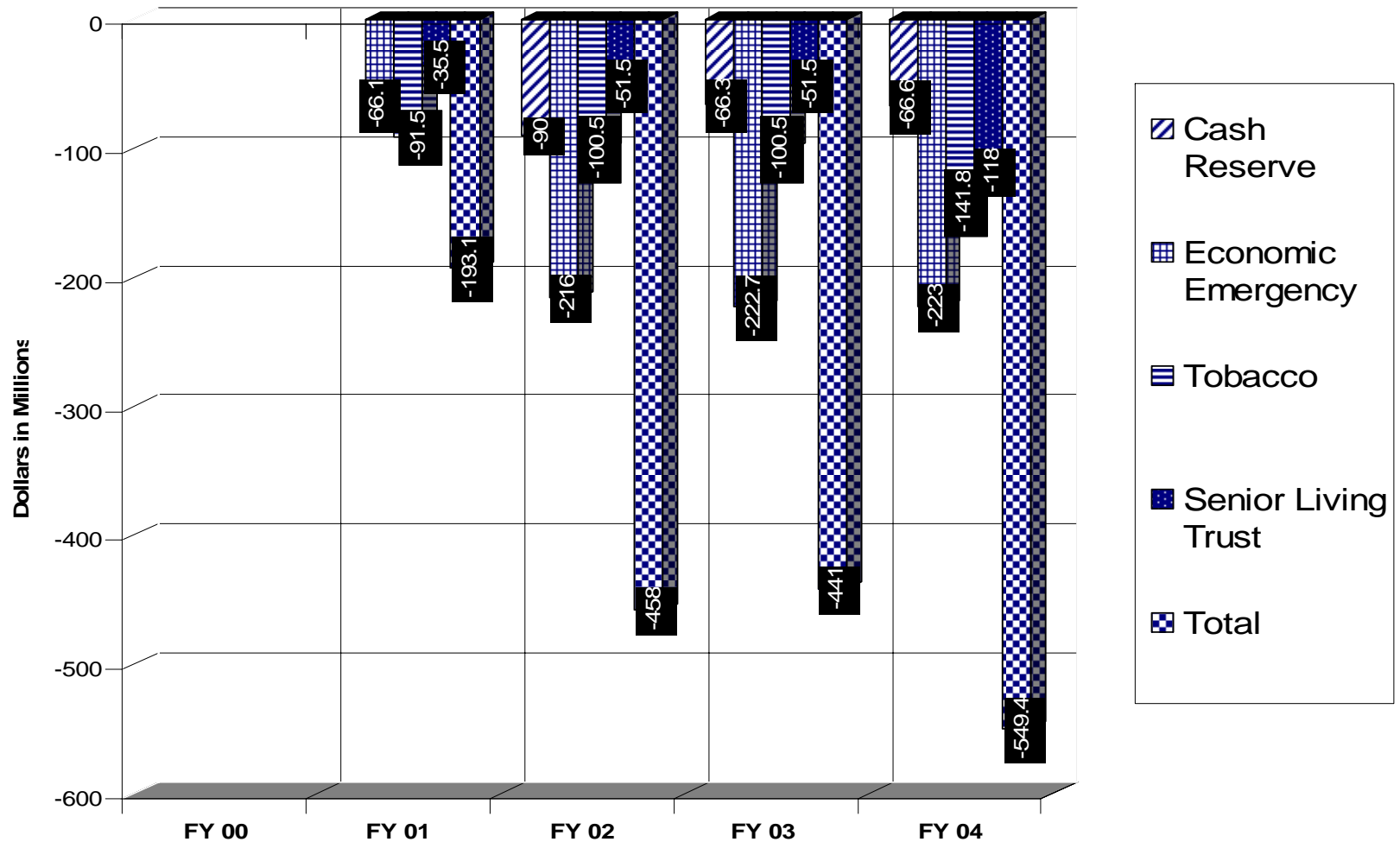
State of Iowa General Fund “Balanced” Budgets

- The key is how
 - Depleted cash surplus
 - Raided other funds and special accounts
 - Committed to repay certain amounts
 - Not addressed repayment for other amounts
- We cannot continue to make budget decisions in a “one-year vacuum” without considering the long-term impact.
- Iowa’s lack of a longer-range focus has severely impacted our financial condition.

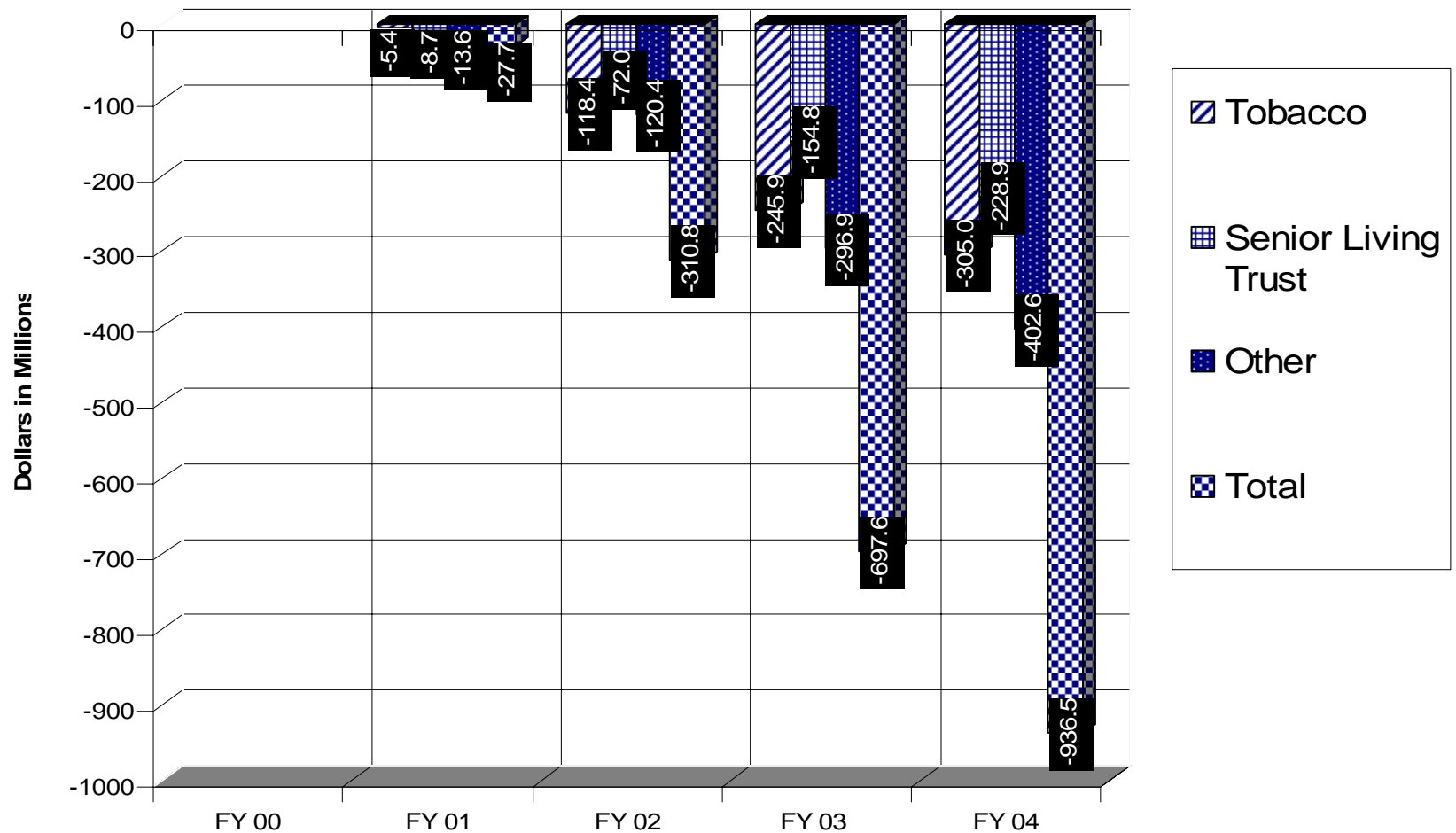
State of Iowa General Fund Cash Surplus and Reserves



State of Iowa General Fund Repayments Required by Law



State of Iowa General Fund Other Revenue Transfers & Expenditures Shifts - Repayment Not Addressed



State of Iowa General Fund What Does It All Mean?

- Spent alarming \$1.9 billion more than revenue stream
 - Over \$400 million cash surplus spent
 - \$1.5 billion taken from other funds and special accounts
- Borrowings at June 30, 2004 - \$550 million
- Additional \$930 million - repayment not addressed
- Cash flow borrowing in Fiscal Year 2004, 2005 and 2006

State of Iowa General Fund 99% Spending Limitation

- Ended with a budget deficit in 2 of last 4 years
- Fiscal Year 2003 deficit was \$46 million
- Lots of focus on Revenue Estimating Conference (REC)
- REC estimated revenue within + or -2% last several fiscal years
- Spending limitation of 99% - not real limitation
- Fiscal Year 2003 - \$2 million cushion on \$4.5 billion General Fund budget

State of Iowa General Fund Lack of Longer-Range Focus

Almost \$550 million has been borrowed and is required to be repaid.

These borrowings started in FY 2001 - this is FY 2005, but a repayment plan has still not been developed.

FY 2005 and 2006 budgets both recommended more borrowing.

What must be done?

- Develop and implement a repayment plan--now.

Good news - steps in the right direction!

- In 2005 session, repayment plans proposed for amounts taken from other funds and special accounts.
 - House Republicans
 - "Swat Team" Bipartisan House File 519

State of Iowa General Fund Lack of Longer-Range Focus

Another over \$930 million taken from over 30 different funds and special accounts where repayment has never been addressed.

These amounts are in addition to the amounts required to be repaid to these funds.

FY 2005 and 2006 budgets both recommended taking more from these funds and special accounts.

What must be done?

- Evaluate - viable without repayment? priority program?
- Decide which amounts will be repaid - develop and implement repayment plan.
- Inform the taxpayers of Iowa which amounts will not be repaid and the consequences.

Good news!

- In 2005 session, repayment plans being proposed.

State of Iowa General Fund Auditor Vaudt's Recommendations

- Expenditures must be in line with revenues, not revenues in line with expenditures
- Take serious steps toward implementing good budgeting principles
 - Align revenues and expenditures in same fiscal year
 - Eliminate reliance on one-time and limited-time resources for on-going expenditures
 - Incorporate a longer-range focus into the budgeting process

State of Iowa General Fund Auditor Vaudt's Recommendations (continued)

- Enhance clarity of the budget - set forth the "true total General Fund expenditures"
- Consider a two-year budget
- Develop a long-range plan (3 to 5 years) - set specific financial goals and establish timelines
- Implement a real spending limitation - 99% or 98%
- Set a timeline and repayment schedule for the monies borrowed from other funds and special accounts

State of Iowa

What Can You Do?

- Stay informed
- Communicate with the Governor and your Legislators:

Governor	515-281-5211
House	515-281-3221
Senate	515-281-3371

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